

**Retirement System's Building
Management Partnership
(A Louisiana Partnership)
Baton Rouge, Louisiana
June 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

Retirement System's Building Management Partnership
Post Office Box 44213
Baton Rouge, Louisiana 70804

Report on the Financial Statements

I have audited the accompanying financial statements of Retirement System's Building Management Partnership, which comprise the balance sheet as of June 30, 2014, and the related statements of revenues and expenses, changes in net position, and cash flows for the year then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Retirement System's Building Management Partnership as of June 30, 2014, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 and 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, I have also issued my report dated August 20, 2014, on my consideration of Retirement System's Building Management Partnership's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Retirement System's Building Management Partnership's internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of Retirement System's Building Management Partnership as of June 30, 2013, were audited by other auditors whose report dated July 31, 2013, expressed an unmodified opinion on those statements.

Steven M. DeRowen & Associates

August 20, 2014

**Retirement System's Building Management Partnership
Management's Discussion and Analysis
June 30, 2014**

The following is management's discussion and analysis of the financial performance of the Retirement System's Building Management Partnership. It is presented as a narrative overview and analysis for the purpose of assisting the reader with interpreting key elements of the financial statements, including notes to the financial statements

FINANCIAL HIGHLIGHTS

- Net position decreased \$10,322 for the year ended June 30, 2014 to \$2,388,826.
- Revenue over expenses in the current fiscal year decreased by \$209,326 to \$435,378.
- Operating expenses increased \$209,055 from 2013 to \$1,108,116.

Note: The net position and revenue over expense decreases are due to higher operating expenses in the 2014 fiscal year compared the fiscal year ended June 30, 2013. The increases in operating expenses are principally due to increased utility costs of \$71,710 and increased repairs and maintenance expenditures of \$128,018 from the prior fiscal year. The increase in utilities is due to higher energy costs. The increase in repairs and maintenance is primarily attributable to a diesel tank leak and related cleanup costs.

- Distributions of capital assets to partners during the current fiscal year totaled \$445,700. Distributions of capital assets included a new chiller acquisition with a cost totaling \$420,700 and new landscaping with costs totaling \$25,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

The explanation of the financial statements is as follows:

Balance Sheets – These statements present the assets, liabilities, and net position as of June 30, 2014 and 2013.

Statements of Revenue and Expenses – These statements present the results of the Partnership's operations during the years ended June 30, 2014 and 2013. They disclose the net revenue over expenses.

Statements of Cash Flows – These statements reflect the cash inflows and outflows that have a direct impact on the cash account for each year presented.

Notes to the Financial Statements – The notes provide additional information that is essential to understand the data presented in the financial statements.

RETIREMENT SYSTEM'S BUILDING MANAGEMENT PARTNERSHIP FINANCIAL ANALYSIS

The Partnership was created for the purpose of managing and maintaining the immovable property, owned by partners located at 8401 Untied Plaza Boulevard, Baton Rouge, Louisiana. Rental revenue is used to pay the Partnership expenses and build up equity to meet unforeseen needs and planned upgrades to the building and grounds. Revenue over expenses for the year ended June 30, 2014 amounted to \$435,378, a decrease of \$209,326 or 32.47% compared to \$644,704 for the year ended June 30, 2013. Expenses were \$1,108,116 for the year ended June 30, 2014 as compared to \$899,061 for the year ended June 30, 2013, an increase of \$209,055.

**Retirement System's Building Management Partnership
Management's Discussion and Analysis
June 30, 2014**

RETIREMENT SYSTEM'S BUILDING MANAGEMENT PARTNERSHIP FINANCIAL ANALYSIS (Continued)

**CONDENSED BALANCE SHEETS
JUNE 30, 2014, 2013, AND 2012**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
TOTAL ASSETS	\$ 2,467,550	\$ 2,420,613	\$ 1,792,625
CURRENT LIABILITIES	\$ 78,724	\$ 21,465	\$ 21,465
NET UNRESTRICTED POSITION	<u>2,388,826</u>	<u>2,399,148</u>	<u>1,771,160</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,467,550</u>	<u>\$ 2,420,613</u>	<u>\$ 1,792,625</u>

Net position decreased \$10,322 from 2013 to 2014 compared to an increase of \$627,988 from 2012 to 2013. The decrease in unrestricted net position is related to increases in expenses of \$209,055 and distributions of capital assets of \$428,984 from the prior year.

**CONDENSED STATEMENTS OF REVENUE AND EXPENSE
YEARS ENDED JUNE 30, 2014, 2013, AND 2012**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
OPERATING REVENUE	\$ 1,543,494	\$ 1,543,765	\$ 1,527,413
OPERATING EXPENSES	<u>1,108,116</u>	<u>899,061</u>	<u>945,285</u>
REVENUE OVER EXPENSES	435,378	644,704	582,128
DISTRIBUTIONS	<u>(445,700)</u>	<u>(16,716)</u>	<u>(111,888)</u>
CHANGE UNRESTRICTED NET POSITION	<u>\$ (10,322)</u>	<u>\$ 627,988</u>	<u>\$ 470,240</u>

Revenue over expenses in the 2014 fiscal year decreased \$209,326 from 2013. The decrease is primarily due to an increase in expenses of \$209,055.

The increase in operating expenses in the 2014 fiscal year is primarily due to increases in utilities of \$71,710 and repairs and maintenance of \$128,018. The increase in utilities is due to higher energy costs. The increase in repairs is primarily attributable to a diesel tank leak and related cleanup costs.

CAPITAL IMPROVEMENTS

The Partnership does not own any property. The partners own all the immovable and moveable property. Improvements or additions to the property are financed through the Partnership and are treated as distributions to the partners.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Retirement System's Building Management Partnership, 8401 United Plaza Boulevard, First Floor, Baton Rouge, Louisiana, 70809.

Retirement System's Building Management Partnership
Balance Sheets
As of June 30, 2014 and 2013

	Assets	
	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and cash equivalents	\$ <u>359,534</u>	\$ <u>419,434</u>
Total current assets	<u>359,534</u>	<u>419,434</u>
Other Assets		
Cash designated for long-term purposes	<u>2,108,016</u>	<u>2,001,179</u>
Total assets	\$ <u><u>2,467,550</u></u>	\$ <u><u>2,420,613</u></u>
 Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ <u>78,724</u>	\$ <u>21,465</u>
Total current liabilities	<u>78,724</u>	<u>21,465</u>
Unrestricted Net Position		
Teachers' Retirement System of Louisiana (50% interest)	1,194,414	1,199,575
Louisiana State Employees' Retirement System (50% interest)	<u>1,194,412</u>	<u>1,199,573</u>
Total unrestricted net position	<u>2,388,826</u>	<u>2,399,148</u>
Total liabilities and unrestricted net position	\$ <u><u>2,467,550</u></u>	\$ <u><u>2,420,613</u></u>

The accompanying notes are an integral part of the financial statements.

Retirement System's Building Management Partnership
Statements of Revenue and Expenses
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenue		
Rent - related party	\$ 1,537,215	\$ 1,537,232
Interest income	2,658	2,413
Other income	<u>3,621</u>	<u>4,120</u>
Total revenue	<u>1,543,494</u>	<u>1,543,765</u>
Expenses		
Repairs and maintenance	470,190	342,172
Utilities	334,095	262,385
Payroll expense	175,237	165,755
Management fee	38,796	36,000
Other expenses	<u>89,798</u>	<u>92,749</u>
Total expenses	<u>1,108,116</u>	<u>899,061</u>
Revenue over Expenses	<u><u>\$ 435,378</u></u>	<u><u>\$ 644,704</u></u>

The accompanying notes are an integral part of the financial statements.

Retirement System's Building Management Partnership
Statements of Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	Teachers' Retirement System <u>of Louisiana</u>	Louisiana State Employees' <u>Retirement System</u>	<u>Total</u>
Balance, June 30, 2012	\$ 885,581	\$ 885,579	\$ 1,771,160
Add:			
Revenue over expenses	322,352	322,352	644,704
Deduct:			
Distributions	<u>(8,358)</u>	<u>(8,358)</u>	<u>(16,716)</u>
Balance, June 30, 2013	<u>1,199,575</u>	<u>1,199,573</u>	<u>2,399,148</u>
Add:			
Revenue over expenses	217,689	217,689	435,378
Deduct:			
Distributions	<u>(222,850)</u>	<u>(222,850)</u>	<u>(445,700)</u>
Balance, June 30, 2014	<u><u>\$ 1,194,414</u></u>	<u><u>\$ 1,194,412</u></u>	<u><u>\$ 2,388,826</u></u>

The accompanying notes are an integral part of the financial statements.

Retirement System's Building Management Partnership
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities		
Rents received	\$ 1,537,215	\$ 1,537,232
Interest received	2,658	2,413
Other fees and revenue	3,621	4,120
Cash paid to suppliers and employees	<u>(1,050,857)</u>	<u>(893,592)</u>
Net cash provided by operating activities	<u>492,637</u>	<u>650,173</u>
Cash Flows From Investing Activities		
Designated for long-term purpose	<u>(106,837)</u>	<u>(828,179)</u>
Net cash used in investing activities	<u>(106,837)</u>	<u>(828,179)</u>
Cash Flows From Financing Activities		
Distributions to partners	<u>(445,700)</u>	<u>(16,716)</u>
Net cash used in financing activities	<u>(445,700)</u>	<u>(16,716)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	(59,900)	(194,722)
Cash - Beginning of Year	<u>419,434</u>	<u>614,156</u>
Cash - End of Year	<u><u>\$ 359,534</u></u>	<u><u>\$ 419,434</u></u>
Reconciliation of Revenue over Expenses to Net Cash Provided by Operating Activities		
Revenues over expenses	\$ 435,378	\$ 644,704
Adjustments to reconcile revenues over expenses to net cash provided by operating activities:		
(Increase) decrease in prepaid expenses	-	5,469
Increase (decrease) in accounts payable	<u>57,259</u>	<u>-</u>
Net cash provided by operating activities	<u><u>\$ 492,637</u></u>	<u><u>\$ 650,173</u></u>

The accompanying notes are an integral part of the financial statements.

Retirement System's Building Management Partnership
Notes to Financial Statements
June 30, 2014

Note 1 – Summary of Significant Accounting Policies

A. Business Operation of Partnership

The Partnership between Teachers' Retirement System of Louisiana and the Louisiana State Employees' Retirement System was formed July 1, 1992.

The Partnership was created for the purpose of managing and maintaining the office building owned by the partners located at 8401 United Plaza Boulevard, Baton Rouge, Louisiana. Rental income is used to pay the expenses of the Partnership and any excess revenue may be distributed to the partners.

Under *Governmental Accounting Standards Board* Statement No. 61, "The Financial Reporting Entity," the definition of the reporting entity is based primarily on the notion of financial accountability. In determining financial accountability for legally separate organizations, the Partnership considered whether its officials appoint a voting majority of an organization's governing body and whether they are able to impose their will on that organization or if there is a potential for the organization to provide specific financial burdens to, or to impose specific financial burdens on the Partnership. The Partnership determined there are no organizations that are fiscally dependent on it and there are no component units of the Partnership.

B. Basis of Accounting

The Partnership has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. The financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when liabilities are incurred and revenues are recorded in the accounting period they are earned and become measureable. The Partnership accrues expenses associated with environmental remediation obligations when such expenses are probable and reasonably estimable. Accruals for estimated expenses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

D. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Partnership considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

E. Reclassifications

Certain reclassifications may have been made to the 2013 financial statements to conform with the 2014 financial statement presentation. The reclassifications had no effect on the Partnership's net position.

Retirement System's Building Management Partnership
Notes to Financial Statements
June 30, 2014

Note 2 – Unrestricted Designations

Unrestricted designations represent funds that the management and managing partners of the Retirement System's Building Management Partnership have designated to provide a reserve for maintenance emergencies and building improvements. Total unrestricted designations, presented as "cash designated for long-term purposes" on the balance sheets, were \$2,108,016 and \$2,001,179 at June 30, 2014 and 2013, respectively.

Note 3 – Cash and Cash Equivalents

Under state law, the Partnership may deposit funds in demand deposit, interest bearing demand deposit, money market, or time deposit accounts with state banks organized under Louisiana law and national banks having their principal offices in Louisiana. The Partnership had cash and cash equivalents (book balances), including cash designated for long-term purposes, totaling \$2,467,550 and \$2,420,613 at June 30, 2014 and 2013, respectively.

These deposits are stated at cost, which approximates market value. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance and/or the pledge or securities owned by the fiscal agent bank. The pledged securities are held in the name of the pledging fiscal agent bank or in a holding or custodial bank that is mutually agreeable to both parties.

At June 30, 2014, the Partnership had \$2,474,222 in deposits (collected bank balances) of which \$250,000 was covered by Federal Deposit Insurance Corporation. The remainder was collateralized by securities held by the Partnership's Agent, JPMorgan Chase Bank, Baton Rouge, Louisiana, in the amount of \$2,497,586.

At June 30, 2013, the Partnership had \$2,425,926 in deposits (collected bank balances) of which \$250,000 was covered by Federal Deposit Insurance Corporation. The remainder was collateralized by securities held by the Partnership's Agent, JPMorgan Chase Bank, Baton Rouge, Louisiana, in the amount of \$2,293,566.

Note 4 – Related Party Transactions

The partners agree on the amount of rent to be paid annually. The total amount of rent paid for the years ended June 30, 2014 and 2013 was \$1,537,215 and \$1,537,232, respectively. Teachers' Retirement System of Louisiana paid \$833,991 and \$834,000 and Louisiana State Employees' Retirement System paid \$703,224 and \$703,232 for the years ended June 30, 2014 and 2013, respectively.

Note 5 – Management Fee

The Partnership has a management agreement for \$3,233 per month in effect through June 30, 2016. However, either party may cancel this management agreement for any reason effective thirty days after receipt of written cancellation notice. The total amount of management fees paid for the years ended June 30, 2014 and 2013 were \$38,796 and \$36,000, respectively. The Partnership reimburses the manager for all payroll and security guard costs based on approvals of the partners.

Retirement System's Building Management Partnership
Notes to Financial Statements
June 30, 2014

Note 6 – Pollution Remediation Obligation

During the fiscal year ended June 30, 2014, the office building the Partnership manages and maintains emergency generator diesel tank leaked out all of its contents. In conjunction with the State of Louisiana Department of Environmental Quality, the Partnership has begun a project to decontaminate the soil beneath the diesel tank and expects this project to continue through next fiscal year. The Partnership estimates the remaining cost of decontamination to total at least \$40,615 and has accrued that amount as an operating expense in the fiscal year ended June 30, 2014. The ultimate cost, however, will depend on the extent of contamination found as the project progresses.

Note 7 – Subsequent Events

The Partnership evaluated all subsequent events through August 20, 2014, the date the financial statements were available to be issued. As a result, the Partnership noted no subsequent events that required adjustment to, or disclosure in, these financial statements.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Retirement System's Building Management Partnership
Post Office Box 44213
Baton Rouge, Louisiana 70804

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Retirement System's Building Management Partnership, which comprise the balance sheet as of June 30, 2014, and the related statement of revenue and expenses, changes in net position, and cash flows for the year then ended and the related notes to the financial statements, and have issued my report thereon dated August 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, I considered Retirement System's Building Management Partnership's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Retirement System's Building Management Partnership's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Retirement System's Building Management Partnership's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Steven M. DeRowen & Associates

August 20, 2014

**Retirement System's Building Management Partnership
Schedule of Current Year Findings and Responses
Year Ended June 30, 2014**

A. Summary of Independent Auditor's Results:

1. Unqualified opinion on financial statements.
2. Significant deficiencies and material weaknesses in internal control – none reported.
3. Noncompliance material to the financial statements – none reported.

B. GAGAS Findings:

None reported.

**Retirement System's Building Management Partnership
Schedule of Prior Year Findings and Responses
Year Ended June 30, 2013**

C. Prior Year Findings:

None reported.